

The Future of the Sino-Soviet Bloc Economic Offensive
in the Underdeveloped Areas Through 1960

I. General

This brief survey examines the changes expected in the general magnitude of the Bloc economic effort in the underdeveloped areas over the near term. It also attempts to detail such specific factors making up the general trends as are discernible. Throughout the discussion it has been assumed that internal matters in the Bloc affecting the economic offensive will not change appreciably. The reaction of the US and other primary Western powers is also considered to remain more or less constant. The main factor determining Bloc economic expansion is expected to continue to be in the receptivity of the underdeveloped countries.

2. Credits and Grants

By late 1960 it may be conservatively anticipated that the cumulative total of Bloc credits and grants extended to the underdeveloped countries will have increased from the present level of about \$2.2 billion to somewhere in the \$3.5 to \$4.0 billion range. This estimate is based on: 1) agreements now being negotiated; 2) offers which have been made and for which strong possibilities of acceptance are present; and 3) the more promising among the emerging opportunities to which the Bloc is likely to respond with substantial offers. This implies an extension of new credits at about \$500-600

million a year, the average of the recent past. On the assumption that repayments are made as scheduled, an annual net credit extension of only \$250-300 million in 1960 is implied.

As in the recent past, the bulk of the new financing probably will be provided by the Soviet Union. The practice, initiated in the summer of 1956, of permitting satellite contractors to bid on portions of Soviet-financed projects may become more widespread. Experience to date points to a continuation of relatively expeditious Bloc implementation of credit and grant-in-aid agreements once firm commitments are agreed upon by both parties.

D. Trade

Over the next two years the flow of equipment, materials, and services from the Bloc to credit-financed projects abroad will boost trade with the underdeveloped countries at a rate more rapid to a level higher than that which would be expected on the basis of a continued expansion in trade on current account alone. Total trade of the Bloc with the underdeveloped countries, nearly \$1.8 billion in 1957 probably will exceed \$3.0 billion and may even approximate \$4.0 billion in 1960. Should the \$4.0 billion region be approached, the chief causative factor will be a sharp increase in Mainland China's commerce with South and Southeast Asia. Here, the beginning of an aggressive trade promotion campaign spearheaded by the Bank of China's branches in the area are now clearly discernible.

C. Technicians

By late 1960 a substantial increase in the number of Bloc technicians present in underdeveloped countries may be confidently anticipated. The number of Bloc technicians employed in connection with economic development programs will climb as many projects move from the survey to the construction phase. Also, survey work will be started under new credits which will be extended over the next two years. During the first half of 1958 it has been estimated that about 2,600 Bloc non-military technicians were present. This estimate contains a strong conservative bias. In comparable terms, the number of such technicians present may be expected to be roughly double the above figure by late 1960.

Bloc military technicians in underdeveloped countries, which were counted at more than 1,000 during the first half of 1958, probably will not number more than 1,600 in late 1960. The opportunities for new and large arms contracts now appear to be quite limited over the near-term. Arms contracts which may be signed with the UAR in the near future will most likely be for replacement of equipment and ammunition and thus will not require the services of additional Bloc technicians.

II. Middle East and Africa

A. Middle East

The economic and political viability of the UAR remains the determinant of future Bloc activity. If membership in the UAR

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remains at its present level extended Bloc participation in economic development of the area is likely. If sizeable oil revenues should be more available to it through additional memberships, the need for foreign funds would be minimised. It is probable that Nasser has gone as far as he now cares to go in his dependence upon the UAR. But his consuming ambitions for an Arab state centered in Cairo and for rapid industrialization severely limit the degree to which he can stem further development of this dependence.

Viewed from Moscow, opportunities in the Middle East are greater than at anytime in the recent past. Substantial economic development programs, based largely on Bloc funds and technical assistance, are underway in Syria and Egypt, more will be required there and in Yemen in the not too-distant future. Direct commercial contacts with a solvent Iraq government are sure to grow apace. With all of this will inevitably come the technicians who are rarely too few for their tasks.

Except for an expected large contract for Bloc arms with Iraq no new arms agreements seem in the wind. Any such agreement with Iraq will of course bring Bloc military specialists to Baghdad in considerable numbers. The UAR and Yemen continue to look to the Bloc for replacement parts, ammunition, and other essential military supplies to keep the equipment already acquired with Bloc financing in operation. Such requirements are by no means small. Add to them

the substantial progress in the UAR and Yemen for military airfield construction, and the present and future contributions of the Bloc to the military power of Nasser, with the accompanying increase in financial involvement, assume formidable proportions.

The process of bonding the key countries of the area to the Soviet sphere of influence is proceeding well. It can be expected to continue unabated in the calculable future.

While small industrial credits appear probable for Turkey and Iran, it does not seem likely that heavy reliance on the Bloc for vital commerce, capital funds, or technical assistance will emerge, over the near-term. Jordan, Saudi Arabia, and Kuwait are presently under heavy pressure both from the Bloc and from the UAR to move away from their strong pro-western positions. Of the three, Jordan seems the most vulnerable to such pressures. Should it succumb, it will be as dependent upon financial and military assistance from its new friends as it has been upon Britain and the United States in the recent past. Saudi Arabia and Kuwait are in no particular need of Bloc trade or assistance. But if either of them or Iraq should decide to become associated with the UAR, financial resources should make it possible for the enlarged UAR to maintain considerable freedom of action if the will for exercising such freedom is present.

B. Africa

An expansion in the economic relations of Libya, Morocco, and Tunisia with the Bloc, particularly the USSR, is in the offing. A growing uneasiness over the possible future consequences of a continued close alignment with the Western powers, particularly in Libya and Morocco, and the weight of growing financial difficulties, especially in Morocco and Tunisia, are the prime reasons. All together, these add to a brighter outlook for Bloc efforts to expand trade and inject capital funds into the North African area. Even if this effort is only modestly successful, the result will represent a considerable change over the insignificant level of such commerce and other economic contacts seen in recent years.

The Bloc has little contact with the economic life of Ghana, Ethiopia, and Sudan to date and the future is not likely to bring many changes. Ghana is seriously looking to the West for capital assistance for the billion dollar Volta River development scheme. Should Ghana draw a complete blank in its attempt to secure at least an important part of the capital needed to begin this project from Western sources, political pressure on the government could well mount to the point where solicitations of Soviet assistance would become a necessity. Sudan may market more of its cotton in the Bloc but this by itself will not be of any significance unless there also occurs a change of government. Judging from present appearances, Ethiopian economic relations with the Bloc will remain at roughly the same discreet level.

III. Europe

A. Iceland

Parring a seizure of governmental control by local communists or withdrawal from NATO, there seems to be no appreciable change in the economic relations between Iceland and the Bloc in the offing. Capital credits may well increase some, but the basis for any large-scale boost is not now apparent. The fishing industry is heavily dependent upon Bloc purchases and will likely continue so over the next couple of years.

B. Yugoslavia

As usual, no reliable trend can be discerned. However, Yugoslavia has continued its precarious balancing act on the fence separating the East and West blocs, and no indications of its toppling into either camp appear on the horizon. Since the Soviet Union has at least as much to gain as does the US in enabling Yugoslavia to keep its balance, extension of new industrial credits or a reactivation of those now withheld is possible or even somewhat probable.

IV. Latin America

Almost all of the countries in Latin America are plagued with chronic economic problems rooted in inflationary pressures. Basically these pressures have come from strong demands simultaneously to step up the pace of economic development and to achieve higher living standards—and to accomplish both within a short period of

time.

The strong current of nationalism, especially marked in Brazil and Argentina, has aggravated the basic economic problems. This nationalism has, on the one hand, led to demands for less economic dependence upon the US both as a market for Latin exports and as a source of investment capital. It has, on the other hand, created an unfavorable climate for foreign capital, particularly in the fields of petroleum and electric power. A slight reversal in this trend has taken place recently in both Brazil and Argentina. But the reversal has not changed the general picture nor is that picture likely to change significantly in the next few years.

Inadequate domestic savings will continue to contribute to a demand for foreign capital. Inflation and an inadequate expansion of exports will add to balance of payments deficits. These deficits in turn will reinforce the need for foreign financial assistance. To the extent that such assistance is not provided by the US and international financial institutions, opportunities for Bloc participation in the economic development of the area will emerge. The forces working for a greater economic nationalism will also encourage the development of new economic ties, some with the Bloc, as a counterweight to US influence. These forces would be somewhat weakened, however, by a sustained expansion of US business activity and a more active awareness in US policy of Latin America's economic problem. Continued weakness in traditional export markets

will also add to the demand for new markets in the Bloc.

V. South and Southeast Asia

In South and Southeast Asia, Communist China has now achieved a secure foothold for its future operations and should register significant, but not necessarily startling gains in the next two years in Southeast Asia. Cambodia, Ceylon, Burma and Nepal thus far have been the major concern of the Communist countries of the Far East. Afghanistan, India, and Indonesia are and will likely remain the major interests of the USSR, and to a lesser extent, the European Satellites.

The rapid improvement in Communist China's position in Cambodia can have farflung repercussions in the whole area. Peiping is intent upon developing other new economic and political bases in South and Southeast Asia in addition to its strong and well established positions in Singapore and Hong Kong. Thailand, Laos and Vietnam will be watching closely the success of the Chinese economic and political efforts in Cambodia. The Philippines, Australia, and New Zealand will undoubtedly find overtures for trade with Communist China more and more difficult to refuse or to severely limit. Concentration on attractive consumer goods at highly competitive prices will continue to be the policy of Communist China. Overseas Chinese merchants, though not politically aligned with Peiping will show a readiness to sell and deal with Communist China for the commercial gain involved.

In the two countries where Peiping's interest have been pursued

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over a longer period, Burma and Ceylon, it is difficult to estimate the probable progress. Barring drastic changes in the political scene which might tend to delay if not cancel implementation of economic development programs, it is probable that the Sino-Soviet Bloc as a unit will play an increasingly important role in Burmese development projects. In Ceylon, new credits are not likely to be of great significance, since Ceylon thus far has been unable to use the \$30 million credit from the USSR and has only limited hopes of trade expansion with Communist China.

India represents the USSR's greatest opportunity in the area, for India is sufficiently advanced industrially to absorb considerable quantities of Soviet capital goods and to utilize large numbers of Soviet technicians. The construction of a second large Soviet steel facility is now under active discussion by both governments concerned. An early accord is considered probable. India's ambitious economic plan will offer ample opportunity for expansion of Soviet credits and technical assistance in the near future.

In Afghanistan and Indonesia the Soviet Bloc is firmly established and will probably continue to furnish economic and military aid in significant quantities. Indonesia has an ambitious five-year economic development program, which has been largely inoperative during the Anti-Dutch Campaign and Civil War in 1957 and 1958. Therefore, large scale economic aid from the USSR and Communist China could be utilized.

Although the present Pakistani government has resisted general Bloc overtures of economic assistance, the present instability of the government makes it difficult to determine the future involvement with the Bloc. Increased trade with the Bloc could result if Pakistan continues to have difficulty disposing of its jute and cotton in free world markets.